The State of California
Energy Resources Conservation
And Development Commission

In the Matter of:	}	**Docket No. 00-REN-1194**
	}	**COMMITTEE WORKSHOPS**
Implementing Renewables Legislation	}	**RE: Renewable Investment**
	}	**Plan**
(Public Utilities Code Sections 381, 383.5, and	}	
399 [SB 1194, AB 995]	}	
	}	

Steven Kelly
Policy Director

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Independent Energy Producers Association
1112 "I" Street, Suite 380
Sacramento, CA 95814

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Comments of the Independent Energy Producers Association (IEP)

On The

Renewable Investment Plan

IEP is pleased to provide the following response to questions posed by the Committee in its Notice of Committee Workshops on the Renewable Investment Plan. These comments are provided in addition to the oral comments IEP provided during the workshops convened between October 30 and November 2, 2000.

Overall Questions.
As a general matter, IEP congratulates the Commission on the design and implementation of its existing renewable programs funded via AB1890 and SB70. Each of the existing programs have been a success. IEP believes that recommendations to significantly change the design and implementation of the programs face a "high bar." Advocates for significant change to the status quo must show convincingly (1) that the existing programs are ineffective and inefficient, and (2) how changes of a substantive nature will improve on the results of the past.

The Commission has a number of goals to accomplish through its Investment Plan. First, the authorizing legislation recognizes the need to consider the cost, reliability and environmental benefits that derived from the continued operation of certain existing renewable resource generating facilities. Specifically, biomass and wind technologies are called out for special consideration. This focus becomes increasingly critical at this point in time, as the state faces a significant generation capacity problem, and existing renewable generation facilities typically provide local reliability benefits as well as energy/capacity benefits. Thus, the Commission's Investment Plan ought to provide a type of insurance to existing facilities to meet the objectives of the legislation.

Second, the Commission must move to implement procedures that will increase the amount of new renewable generation capacity in the state. New renewable generation capacity will help diversify the state's generation mix, as well as provide reliability and energy/capacity benefits wherever located. Thus, the Commission's Investment Plan ought to continue the existing program of competitive auctions to incent new renewable development in California in a timely manner.

Third, the Commission must seek to avoid overwrought complexities that create delay in program implementation. IEP notes that in other forums, most notably the California Public Utilities Commission, the effort to foster new renewable generation during the early 1990s became over burden with complexities and delay. The result: four years to design and hold an auction; litigation as to the outcomes; and, ultimately, no new renewable development in California. IEP strongly urges the Commission to avoid seeking the "perfect" auction; rather, look to the success of the past as a guide to the future.

Finally, the Commission must retain some flexibility to adjust program parameters, objectives, funding levels, etc., to match the ever-changing environment in which these programs/technologies operate. The Commission has exercised the appropriate level of flexibility and discretion in the past, and this should continue. This speaks for using Guidelines rather than Regulations, but also speaks for periodic reviews of program performance and funding allocations.

Funding Allocation

IEP offers for the Commission's consideration a relatively simple plan for funding allocation which meets the primary goals described above, namely (1) supports certain existing technologies by providing an insurance program in case SRAC based energy payments move downward, (2) devotes a minimum level of funds for an annual auction (an amount which may increase depending on the extent to which unused/uncommitted funds remain in the other renewable accounts), and (3) adheres to the principle of simplicity while building off the proven successes of the existing programs.

Specifically, IEP recommends that the Commission maintain each of the existing programs, and allocate to each of the categories the same percentage of funds on an annual basis that was approved in SB90. A notable exception to this allocation would be Tier III within the existing account, which would receive no allocation.

Under this approach, the Tier I technologies within the Existing Account would be budgeted 25 percent of the annual funds; Tier II technologies within the Existing Account would be budgeted 13 percent of the annual funds. In addition, the New Account would be budgeted 33 percent of the annual funds, which is an increase from SB90 due to the reallocation of Tier III funds from the Existing Account. The Emerging Account would be budgeted 10 percent of the annual funds. The Customer Credit would receive 14 percent of the annual funds. The Consumer Education would receive 8 percent of the annual funds, which is an increase from SB90 due to the reallocation of Tier III funds from the Existing Account.

The Table below provides a breakout of the proposed allocation on an annual basis assuming an overall allocation of $135 million annually to the renewable program from the system benefit charge.

Program Categories	**AB1890/SB90 Allocation**	**SB194/AB995 Allocation**	**Annual $ (millions)[1]**
Existing Account			
Tier I: Biomass/Solar T.	25%	25%	33.7
Tier II: Wind	13%	13%	17 .55
Tier III: Geothermal/LFG	7 %	0	0
New Account	30%	33%	44.55
Emerging Account	10%	10%	13.5
Consumer Account			
Customer Credit	14%	14%	18.9
Consumer Education	1%	5%	6.75

A unique feature of the IEP proposal, which distinguishes it from the approach taken under SB90, is that any funds not used/committed by November of each year from each program account would roll-over into the New Account, rather than roll-over to the same account in any succeeding year. The advantages of this roll-over approach to the New Account is as follows:

- The annual budget for the New Account will be at a minimum $44.55 million, yet IEP fully expects that this number will significantly increase due to rollovers from other accounts. For example, if SRAC stays high during a year, then the unused budget would roll into the New Account. The amount would easily reach $60 million on an annual basis.

- Ensures that a adequate "insurance" program is in place for the AB1890/SB90 renewable programs. For example, this insurance program protects against a downward trend in SRAC by reserving a requisite amount of funds for TIER I and Tier II technologies as prescribed in AB995. Alternatively, this approach provides a cushion for the emerging technology program, in case consumer demand dramatically increases (compared to historical) for qualified emerging technologies.

- Provides for an annual auction for New Resources every Fall. The amount of funds auctioned annually will be set at a minimum level (e.g. $44.5 million) and could increase concomitantly with a Commission determination of the amount of unused

[1] These allocations should be indexed at a minimum at the same level as the AB995 funds are indexed.

funds likely to reside in the other accounts at the end of the calendar year. The routine, periodic nature of the auction (i.e. every Fall) will provide renewable developers with sufficient advance information to plan and prepare the very best projects.

- Ensures that SB1194/AB995 funds are fully expended in a timely and useful manner.

New Account
As indicate above, IEP believes that the New Account ought to receive the bulk of the funds, to be auctioned annually, while providing an ample level of "insurance" for each of the remaining renewable program accounts.

The initial auction resulted in a commitment of approximately 300 MWs of new renewable capacity for a relatively modest investment of $162 million. Presently, little if any evidence exists that significantly altering the auction protocols will result in a better outcome. Importantly, the list of winners of the initial auction reveals that (1) all renewable technologies were capable of bidding and, indeed, winning, and (2) a full range of project sizes were deemed "winners." This suggests that little, if any, bias existed from the auction protocols. Large and small developers were equally successful, which suggests that the auction protocols did not create barriers (e.g. financing barriers) to prospective bidders. In the absence of compelling evidence that the Commission's existing protocols create barriers and systematic biases in results, IEP would urge the Commission to continue on its historical course.

Continuing on its historical course suggests that a reverse auction, providing incentive payments on a kWh basis delivered to the grid, should continue to be the basis for the auction protocol. This approach requires developers, not the Commission, to assess and internalize risk in developing their respective bids. Importantly, this approach allows the Commission to conduct timely auctions without needless delay designing/redesigning the perfect auction protocols which by their very nature would be predetermining auction outcomes.

IEP also questions the value of proposals which have the Commission establish auction protocols that inversely mirror market clearing prices. The problems associated with this approach are primarily twofold. First, this approach requires the Commission to determine what the market clearing price is for renewables, which is problematic given that the renewable "future" may hinge on a less than transparent bilateral market (In which case the Commission would have to open up bilateral contracts to make its determination). Second, this approach requires the Commission to set aside and reserve a larger amount of funds to protect against a contingency of low market clearing prices. As a comparison to this approach, the existing protocols provide the Commission with sufficient certainty as to the amounts paid out, that the auction tends to maximize the amount of new renewable development.

IEP's recommendation, therefore, is to essentially continue the existing auction protocol until compelling evidence emerges to suggest that it systematically bias or incapable of resulting in a significant increase in new renewables to California. This approach has the following advantages:

- Ensures that funds are expended in a timely manner for the maximum amount of new renewables (as opposed to requiring large reservations of funds depending on future market prices).
- Favors simplicity over complexity, and avoids the intractable problem of requiring the Commission to assess/adjust auction protocols based on perceived risks or advantages in the marketplace.
- Provides flexibility to adjust the protocols on an annual basis depending on the outcomes of the previous year's auction.

Summary

Clearly, providing an insurance policy for certain technologies while fostering significant new investment in a timely manner was a key legislative objective. IEP believes that the Commission has a strong, positive record in the design and development of its renewable programs. Thus, within the legal prescriptions of AB995, we believe that significant, wholesale changes to the AB1890/SB90 programs require clear and convincing evidence supporting such change.

The Commission must have the flexibility to adjust program parameters, if the environment in which the renewable resources reside changes significantly. For example, the Commission's existing programs were designed and developed with the presumption that a viable, sustaining retail market would emerge in which renewables would be able to fairly compete. To date this has not come true, and we may find in the near future that a viable , sustaining retail market may not emerge in the foreseeable future. Thus, IEP's recommended approach is to create an initial budget/funding level as an insurance policy fo each programmatic area, with the recognition that the Commission needs a mechanism to routinely evaluate the effectiveness of the programs. We suggest an annual review as part of the review to determine the amount of funds to roll-over to the New Account.

IEP looks forward to working with the Commission developing and implementing the Commission's Investment Plan.

Respectfully submitted,

S. Kelly

Steven Kelly
Policy Director